

THE DOWNTOWN ALLIANCE, INC.
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
AND
CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006 and 2005

HANSEN, BARNETT & MAXWELL
A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

THE DOWNTOWN ALLIANCE, INC.

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Accounting Oversight Board



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees
The Downtown Alliance, Inc.

We have audited the accompanying consolidated statement of financial position of The Downtown Alliance, Inc. (the Alliance) (a non-profit organization) as of June 30, 2006 and 2005, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Alliance's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Downtown Alliance, Inc. as of June 30, 2006 and 2005, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2006, on our consideration of the Downtown Alliance, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the 2006 and 2005 basic consolidated financial statements taken as a whole. The supplementary schedules are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
September 14, 2006

THE DOWNTOWN ALLIANCE, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 261,117	\$ 236,123
Trade receivables, net of allowance for doubtful accounts of \$0 and \$3,370, respectively	23,260	33,449
Other assets	<u>6,200</u>	<u>-</u>
Total Current Assets	<u>290,577</u>	<u>269,572</u>
Property & Equipment, Net	<u>23,075</u>	<u>30,151</u>
Total Assets	<u><u>\$ 313,652</u></u>	<u><u>\$ 299,723</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 49,024	\$ 97,034
Accounts payable - related party	64,855	4,873
Accrued liabilities	135,288	69,473
Current portion of capital lease obligations	<u>468</u>	<u>1,197</u>
Total Current Liabilities	<u>249,635</u>	<u>172,577</u>
Long Term Portion of Capital Lease Obligations	<u>-</u>	<u>399</u>
Total Liabilities	<u>249,635</u>	<u>172,976</u>
Net Assets - Unrestricted	<u>64,017</u>	<u>126,747</u>
Total Liabilities and Net Assets	<u><u>\$ 313,652</u></u>	<u><u>\$ 299,723</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

THE DOWNTOWN ALLIANCE, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Revenues		
Contract Revenue	\$ 700,000	\$ 730,450
Sponsorships	95,000	93,200
Program Revenue	369,876	399,591
Grants & Contributions, including in-kind contributions of \$98,430 and \$184,789	210,916	286,962
Miscellaneous Revenue	1,271	6,089
Loss on disposal of property and equipment	-	(23,029)
Total Revenues	<u>1,377,063</u>	<u>1,493,263</u>
Expenses		
Program Services		
Downtown Promotion	586,495	649,800
Economic Development	361,114	435,048
First Night	378,125	360,754
Total Program Services Expenses	<u>1,325,734</u>	<u>1,445,602</u>
Support Services		
General and administrative	<u>114,059</u>	<u>118,551</u>
Total Expenses	<u>1,439,793</u>	<u>1,564,153</u>
Change in Net Assets	(62,730)	(70,890)
Net Assets - Beginning of Year	<u>126,747</u>	<u>197,637</u>
Net Assets - End of Year	<u><u>\$ 64,017</u></u>	<u><u>\$ 126,747</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

THE DOWNTOWN ALLIANCE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (62,730)	\$ (70,890)
Adjustments to reconcile net increase in net assets to cash flows from operating activities:		
Depreciation and amortization	10,340	21,808
Loss on disposal of assets	-	23,029
Changes in assets and liabilities:		
Trade receivables	10,189	(7,930)
Trade receivables related party	-	3,200
Other assets	(6,200)	3,210
Accounts payable	(48,010)	79,120
Accounts payable - related party	59,982	17,123
Accrued liabilities	65,815	20,416
Net Cash Flows from Operating Activities	<u>29,386</u>	<u>89,086</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	<u>(3,264)</u>	<u>-</u>
Net Cash Flows from Investing Activities	<u>(3,264)</u>	<u>-</u>
Cash Flows from Financing Activities		
Payments made on capital lease obligations	<u>(1,128)</u>	<u>(1,237)</u>
Net Cash Flows from Financing Activities	<u>(1,128)</u>	<u>(1,237)</u>
Net Change in Cash and Cash Equivalents	24,994	87,849
Cash and Cash Equivalents at Beginning of Year	<u>236,123</u>	<u>148,274</u>
Cash and Cash Equivalents at End of Year	<u>\$ 261,117</u>	<u>\$ 236,123</u>

The accompanying notes are an integral part of these consolidated financial statements.

THE DOWNTOWN ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 1-NATURE OF OPERATIONS

Organization — The Downtown Alliance, Inc., (the Alliance) is a non-profit Utah corporation organized to promote growth, foster development and encourage activities within the Salt Lake central business area. Support is received primarily from a contract with Salt Lake City (the City) for funding through the Central Business Economic Improvement District of Salt Lake City Corporation.

Effective July 1, 2003, the Alliance and the Salt Lake Area Chamber of Commerce entered into a merger. Both entities retain separate legal status. The boards for both entities have been merged, and a separate committee has been organized to oversee the operations of The Downtown Alliance, Inc. As part of this merger, current employees of the Alliance are employees of the Salt Lake Area Chamber of Commerce and are leased back to the Alliance to operate the programs.

First Night – First Night was organized for the purpose of broadening and deepening the public's appreciation for the visual and performing arts. This is accomplished by coordinating and operating an annual public celebration of the New Year, which promotes the visual and performing arts. First Night is managed by the Alliance and is considered a program of the Alliance and share a Board of Directors, although First Night and the Alliance are separate legal entities. Therefore, for presentation purposes, First Night is considered to be a subsidiary of the Alliance. First Night's financial position and activities are consolidated with those of the Alliance in these financial statements. The fiscal year end for First Night is March 31. Due to the nature and timing of First Night's activities, the different fiscal year end does not result in materially different amounts on the accompanying financial statements than would be presented under a June 30 fiscal year.

Program Services —

Downtown Promotion – Downtown promotion includes ongoing programs such as Lights On, Farmers Market, First Night, Twilight Concerts, Arts & Craft Market, Winterfest and other downtown events. Other efforts include a bi-monthly newsletter, parking guides and downtown and night life guides.

Economic Development – Economic development includes the downtown token program, distribution of economic development materials, economic profiles, and benchmark studies. Other efforts include promotional brochures, attendance at conferences and seminars, and various marketing campaigns.

Consolidation – The accompanying consolidated financial statements include the accounts and transactions of the Alliance for all periods presented and the accounts and transactions of its subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. Both entities are referred to as "the Alliance" unless otherwise stated.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation— The Alliance follows U.S. generally accepted accounting principles for not-for-profit organizations and reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as applicable.

Cash and Cash Equivalents — For purposes of the statements of cash flows, the Alliance considers all unrestricted highly liquid investments with an initial maturity an three months or less to be cash equivalents.

Revenue Recognition — Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property and Equipment — Equipment is recorded at cost. Depreciation and amortization are computed on the straight-line method over the following estimated useful lives:

	<u>Useful Lives</u>
Computer Equipment	5 years
Furniture and Fixtures	7 years

Contributions — Contributions are recognized as revenue in the period received at their fair values and reported as unrestricted, temporarily restricted or permanently restricted support, as applicable, depending on the existence of donor restrictions.

Contributed Services— During the years ended June 30, 2006 and 2005, the value of contributed services which meet the requirements for recognition in the financial statements was not material and has not been recorded.

Many individuals volunteer their time and perform a variety of tasks in connection with First Night's activities. These services have not been recorded in the financial statements as they do not meet the criteria for recognition as contributed services.

Sponsorship of Events — During the normal course of operations, the Alliance receives sponsorship support in exchange for acknowledgment of the sponsor's name, logo, or product line in connection with its activities.

Advertising — The Alliance expenses advertising costs as incurred. Total advertising expense for the years ended June 30, 2006 and 2005 was \$137,552 and \$168,953. Not included in advertising expense are non-cash in-kind contributions, which were \$98,430 and \$184,789 for the years ended June 30, 2006 and 2005.

Use of Estimates — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Functional Allocation of Expenses — The costs of operating the various programs and other activities have been summarized on a functional basis in the statement of activities. Costs are allocated between general and administrative costs and the appropriate program based on evaluations of the related benefits. General and administrative costs include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Alliance.

Income Taxes — The Alliance and First Night are exempt from federal income taxes under Section 501(c)(6) and Section 501(c)(3), respectively, of the Internal Revenue Code in connection with their exempt activities. Both entities are also exempt from state income state taxes under State of Utah tax regulations.

NOTE 3 – PROPERTY AND EQUIPMENT

	2006	2005
Computer equipment	\$ 15,765	\$ 12,900
Furniture and fixtures	52,596	52,596
Total	68,361	65,496
Accumulated depreciation and amortization	(45,286)	(35,345)
Net property and equipment	<u>\$ 23,075</u>	<u>\$ 30,151</u>

NOTE 4 – CONCENTRATIONS OF CREDIT RISK

The Alliance maintains its cash and money market accounts with two financial institutions. Balances on deposit at the bank may at times exceed federally insured limits. The Alliance has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk related to cash balances.

During the years ended June 30, 2006 and 2005, approximately 51% and 46% respectively, of the total revenue earned by the Alliance was a result of a contract with the City.

NOTE 5 – CAPITAL LEASES

The Alliance purchased no additional office equipment under capital lease agreements during the year ended June 30, 2006. The provisions of prior year agreements call for monthly payments including interest. In 2007 the amount due related to capital lease agreements is \$482, of which \$14 represents interest. No amounts related to capital lease obligations are due after 2007.

Property recorded under capital leases includes the following amounts at June 30:

	<u>2006</u>	<u>2005</u>
Furniture and fixtures	\$ 45,034	\$ 45,413
Accumulated depreciation	<u>(28,990)</u>	<u>(23,264)</u>
Balance, end of year	<u>\$ 16,044</u>	<u>\$ 22,149</u>

NOTE 6 – MANAGEMENT CONTRACT AND CONTINGENCIES

The contract with the City for the funding from the Central Business Economic Improvement District of Salt Lake City Corporation provides for support of the Alliance in the amount of \$2,100,000 to be paid quarterly over a three-year term. The current contract expires in April 2007.

The use of funds and the activities of the Alliance are subject to compliance audits by the city. Any future liability for reimbursement which may arise as the result of these audits is not believed to be material. No reimbursements have been required in the past. Per mutual agreement between the City and the Alliance, revenue from the contract is recognized quarterly, as it is considered to be earned.

NOTE 7 – RETIREMENT PLAN

The Alliance maintains a 401(k) retirement plan for the benefit of its employees. Subject to the maximum Internal Revenue Service allowed amount, all eligible employees can elect to have a portion of their salaries deferred and contributed to the plan. The Alliance may make discretionary matching contributions up to 14% of total compensation. The discretionary contributions are allocated to participants based on total compensation. The Alliance's contribution was \$7,951 and \$11,531 in 2006 and 2005, respectively.

In accordance with an employment agreement between the Executive Director and the Alliance, the Alliance has accrued approximately \$51,300 and \$47,800 in severance pay as of June 30, 2006 and 2005 respectively, based on tenure of service.

NOTE 8 – SUPPLEMENTAL CASH FLOW INFORMATION

Cash and cash equivalents include cash on hand, bank demand deposit accounts and money market accounts.

During the years ended June 30, 2006 and 2005, the Alliance paid \$148 and \$367 of interest, respectively.

Non-Cash Activities — During 2005, the Alliance disposed of equipment with an original cost of \$98,101 and accumulated depreciation of \$75,072, resulting in a loss on disposal of \$23,029.

During 2006, the Alliance forgave the accounts receivable from First Night in the amount of \$48,950.

NOTE 9 – RELATED PARTIES

First Night purchased marketing and public relations services from a firm whose president in 2002 served on the Board of Trustees as Past Chair of the Alliance and currently serves on the Board of Directors of the Salt Lake Chamber of Commerce (a related entity). Fees of approximately \$0 and \$61,800 were paid to the firm for the years ended June 30, 2006 and 2005.

SUPPLEMENTARY INFORMATION

THE DOWNTOWN ALLIANCE, INC.
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

EXPENSES	Program Services		First Night	General and Administrative	2006 Totals
	Downtown Promotion	Economic Development			
Compensation and related taxes	\$ 150,711	\$ 119,227	\$ 1,937	\$ 74,894	\$ 346,769
Research and studies	-	10,101	-	-	10,101
Public relations, information and events	234,482	163,388	178,905	1,011	577,786
Advertising	77,921	18,221	41,410	-	137,552
Holiday lighting	74,264	-	-	-	74,264
In-Kind Expenses	-	-	94,235	-	94,235
Rent	26,870	21,027	-	14,840	62,737
Insurance	466	365	-	257	1,088
Auto expense	2,194	1,717	-	1,212	5,123
Professional fees	3,942	3,085	660	2,177	9,864
Supplies and materials	2,364	1,853	221	1,308	5,746
Printing and publications	3,065	2,398	330	1,693	7,486
Dues and subscriptions	1,052	823	1,350	581	3,806
Parking	2,774	2,171	-	1,532	6,477
Telephone	5,607	4,388	303	3,097	13,395
Travel, meals and entertainment	2,078	1,626	1,631	1,147	6,482
Postage and shipping	1,068	836	92	590	2,586
Bank charges	-	-	50	248	298
Repairs and maintenance	2,582	2,020	-	1,426	6,028
Equipment lease/rental	3,883	3,038	-	2,144	9,065
Other	(13,257)	1,364	57,001	3,309	48,417
Interest expense	-	-	-	147	147
Depreciation	4,429	3,466	-	2,446	10,341
Total Expenses	\$ 586,495	\$ 361,114	\$ 378,125	\$ 114,059	\$ 1,439,793

THE DOWNTOWN ALLIANCE, INC.
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

EXPENSES	Program Services		First Night	General and Administrative	2005 Totals
	Downtown Promotion	Economic Development			
Compensation and related taxes	\$ 164,815	\$ 120,148	\$ 5,049	\$ 76,088	\$ 366,100
Research and studies	-	24,315	-	-	24,315
Public relations, information and events	201,004	215,138	150,142	4,663	570,947
Advertising	86,679	26,000	56,274	-	168,953
Holiday lighting	72,836	-	-	-	72,836
In-Kind Expenses	56,639	-	134,151	-	190,790
Rent	27,864	20,314	2,500	12,861	63,539
Insurance	2,863	2,087	1,500	1,322	7,772
Auto expense	1,962	1,430	-	905	4,297
Professional fees	3,522	2,568	7,503	1,626	15,219
Supplies and materials	2,776	2,024	717	1,281	6,798
Printing and publications	2,517	1,835	416	1,162	5,930
Dues and subscriptions	544	397	-	251	1,192
Parking	2,990	2,180	144	1,380	6,694
Telephone	3,322	2,422	711	1,533	7,988
Travel, meals and entertainment	1,969	1,435	803	909	5,116
Postage and shipping	819	597	15	378	1,809
Bank charges	-	-	50	213	263
Repairs and maintenance	3,695	2,694	-	1,706	8,095
Equipment lease/rental	2,959	2,158	-	1,366	6,483
Other	70	48	779	6,042	6,939
Interest expense	-	-	-	270	270
Depreciation	9,955	7,258	-	4,595	21,808
Total Expenses	\$ 649,800	\$ 435,048	\$ 360,754	\$ 118,551	\$ 1,564,153

THE DOWNTOWN ALLIANCE, INC.
CONSOLIDATED SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2006

	<u>First Night</u>	<u>Downtown Alliance</u>	<u>Eliminated In Consolidation</u>	<u>Consolidated Total</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 24,436	\$ 236,681	\$ -	\$ 261,117
Trade receivables	-	35,260	(12,000)	23,260
Accounts receivables - related party	2,927	-	(2,927)	-
Other Assets	6,200	-	-	6,200
Total Current Assets	<u>33,563</u>	<u>271,941</u>	<u>(14,927)</u>	<u>290,577</u>
Property and Equipment, Net	<u>-</u>	<u>23,075</u>	<u>-</u>	<u>23,075</u>
Total Assets	<u>\$ 33,563</u>	<u>\$ 295,016</u>	<u>\$ (14,927)</u>	<u>\$ 313,652</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 20,541	\$ 43,410	\$ (14,927)	\$ 49,024
Accounts payable - related party	-	64,855	-	64,855
Accrued liabilities	-	135,288	-	135,288
Current portion of capital lease obligation	-	468	-	468
Total Liabilities	<u>20,541</u>	<u>244,021</u>	<u>(14,927)</u>	<u>249,635</u>
Net Assets	<u>13,022</u>	<u>50,995</u>	<u>-</u>	<u>64,017</u>
Total Liabilities and Net Assets	<u>\$ 33,563</u>	<u>\$ 295,016</u>	<u>\$ (14,927)</u>	<u>\$ 313,652</u>

THE DOWNTOWN ALLIANCE, INC.
CONSOLIDATED SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	First Night	Downtown Alliance	Eliminated In Consolidation	Consolidated Total
Revenues				
Contract revenue	\$ 15,000	\$ 700,000	\$ (15,000)	\$ 700,000
Sponsorships	95,000	-	-	95,000
Program revenue	90,179	279,697	-	369,876
Grants and contributions, including in-kind contributions of \$98,430	138,793	72,123	-	210,916
Miscellaneous revenue	168	1,103	-	1,271
Gain (Loss) on forgiveness of debt	48,950	(48,950)	-	-
Total Revenues	388,090	1,003,973	(15,000)	1,377,063
Expenses				
Program Services	378,125	962,609	(15,000)	1,325,734
General and Administrative	-	114,059	-	114,059
Total Expenses	378,125	1,076,668	(15,000)	1,439,793
Change in Net Assets	9,965	(72,695)	-	(62,730)
Net Assets - Beginning of Year	3,057	123,690	-	126,747
Net Assets - End of Year	\$ 13,022	\$ 50,995	\$ -	\$ 64,017

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INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
The Downtown Alliance, Inc.

We have audited the consolidated financial statements of The Downtown Alliance, Inc., (the Alliance) (a non-profit Utah corporation), as of and for the year ended June 30, 2006, and have issued our report thereon dated September 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting.

In planning and performing our audits, we considered the Alliance's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alliance's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the Board of Trustees, and funding agencies of the Alliance and is not intended to be and should not be used by anyone other than these specified parties.

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah
September 14, 2006